

IRS Announces New Withholding Adjustment Option for Pension Plans

In March 2009, the Internal Revenue Service (IRS) established new wage withholding tables designed to accelerate the benefit of the “Making Work Pay” tax credit passed under the American Recovery and Reinvestment Act of 2009. The new withholding tables (February 2009) may result in **under-withholding** for retirees who do not qualify for the Making Work Pay tax credit – because, for example pension benefits are their sole source of income. The deadline for implementing the new withholding tables was generally April 1, 2009 [you saw this increase to your net payment on your April 1, 2009 pension check].

There was concern raised by the pension industry that the new tables would create **under-withholding** for a significant number of retirees. In response to these concerns, the IRS issued a Notice on May 14, 2009 addressing these concerns. The Notice permits pension plans to choose either of the following options: 1) continue using the February tables; or 2) adopt an additional procedure that increases the withholding by a specified amount, based on the pensioner’s payment frequency (e.g., monthly), the pensioner’s marital status, and the pension dollar amount. The IRS has not specified an effective date for adopting the additional withholding procedure but has encouraged plans to choose to adopt a policy and to do so as soon as possible.

You may not be aware; but, your monthly pension check is processed through the City’s Finance department based upon information submitted by the Retirement Department (along with all other payment obligations issued by the City). This means, the Retirement Department does not actually “cut” your retirement check. In consultation with the Finance Department and in the interest of cost savings – we have concluded it prudent to process your monthly retirement check using just one set of withholding tables (the February 2009 issued tables).

WHAT DOES THIS MEAN TO YOU

What does this mean to you? This means, if pension income is your only source of annual compensation, you may be **under-withholding** and may need to increase your withholding taxes. If you do not, you may owe more taxes for 2009 than you were anticipating. We suggest you consult with your tax advisor as the Retirement Office is not in a position to render tax advice.

If you want to change your tax withholding, please download the W-4P from our web site www.seattle.gov/retirement (On-line Forms - Tax Withholding Change – Long Form) and mail it to: SCERS, 720 Third Avenue, Suite 1000, Seattle, WA 98104. Your changed will be processed and be reflected on your next pension check (allowing 7 business days to process).